

STATEMENT

by

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of

Vienna, Georgia

before the

Senate Committee on Agriculture, Nutrition & Forestry

Hearing in

Albany, Georgia

June 23, 2006

Mr. Chairman and members of the Committee, thank you for holding this hearing and for providing me an opportunity to present testimony on current and future farm policy.

My name is Chuck Coley. I am a 3rd generation cotton and peanut farmer from Vienna, Georgia. I am also President of Coley Gin and Fertilizer which operates a cotton gin and warehouse; a peanut buying point and warehouse; and, a fertilizer and crop protection product distribution company. I am a past Chairman of national and regional ginner organizations. I currently serve as Vice Chairman of the American Cotton Producers, the organization for producers within the National Cotton Council.

Mr. Chairman, we are very proud to welcome you home today in your capacity as Chairman of this very important Senate Committee. I want to express my sincere appreciation to you for your service to our country and your continuing contributions to the maintenance of sound agricultural policy, which is so important to this area and to the nation.

Throughout my testimony, I will frequently refer to the success of our current farm law. Mr. Chairman, as a member of the House Budget and Agriculture Committees, you played a pivotal role in obtaining the necessary resources for the 2002 farm bill. Then you played a major role in shaping highly effective legislation. As a member of the Senate and now as Chairman of the Agriculture Committee, you have been largely responsible for maintaining sound policy without major modification. It is not insignificant that for the past 6 years no farm organization has called for major modification of current law nor has Congress approved major changes.

I am very pleased to note that Georgia is the 3rd largest cotton producing state, accounting for 10 percent of the U.S. crop. (Georgia and Mississippi produced approximately the same volume of cotton in 2005/06 ranking third behind Texas and Arkansas.) The principle reasons for the resurgence in cotton production in Georgia are the successful eradication of the boll weevil and an effective, stable farm program. I would also note for our visitors that Georgia agriculture is highly diversified, that our operations require intensive management and that we continue to invest heavily in technology to remain competitive.

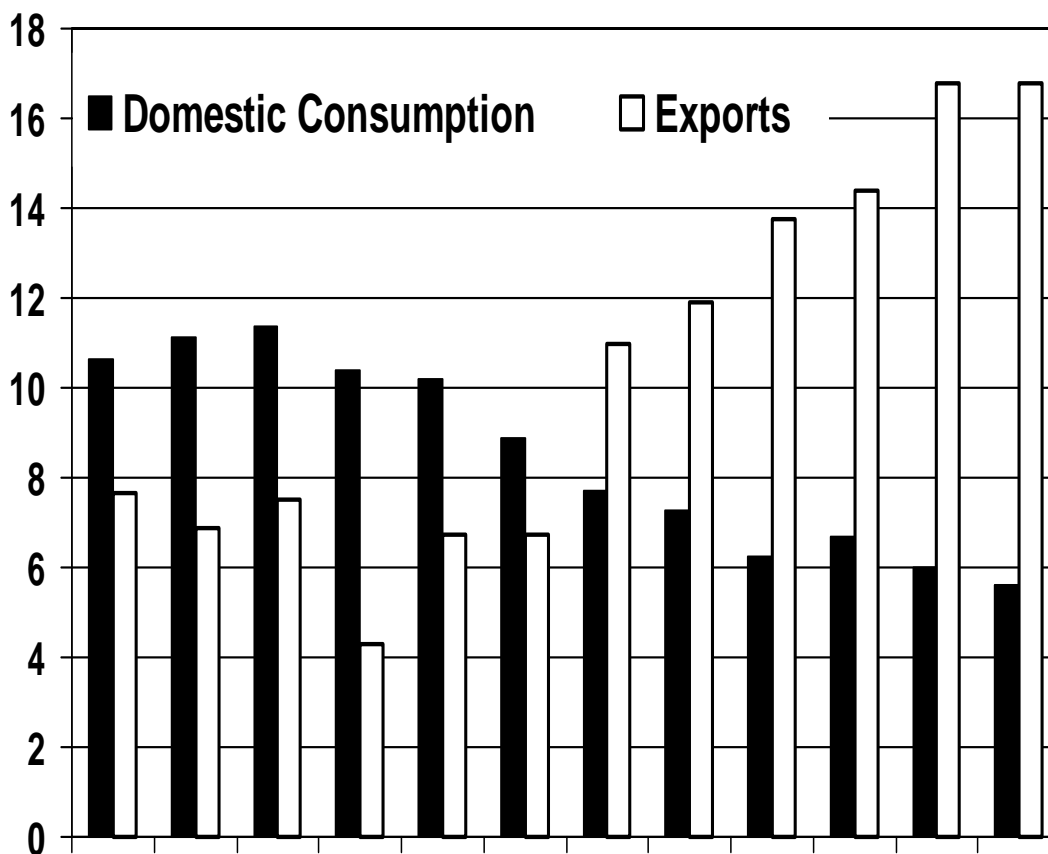
Unfortunately, our premier customers, the U.S. textile industry have not fared as well in spite of their investments and their major gains in productivity. Cotton farmers are deeply concerned

with the loss of our manufacturing customer base. We have committed to continue to work with U.S. textile manufacturers to ensure that there are policies in place that promote and reward fair competition. We are also committed to continue to supply the top quality fiber necessary for U.S. manufacturers to produce internationally competitive textile and apparel products. The loss of the Step 2 program may have had an adverse impact on our domestic manufacturers given their fragile financial conditions. The remaining manufacturers have indicated strong interest in making revisions to our Step 3 import policy and in developing a possible WTO compliant replacement for Step 2.

The rapid decline in raw cotton consumption by domestic mills has created challenges for all cotton farmers but none more than for cotton farmers in the southeast who must identify new export markets to replace domestic consumption lost to imported products. This market adjustment places new and added pressure on our infrastructure including surface transportation and port facilities. We are working with the industry and with USDA and Congress as appropriate to meet those challenges.

U.S. Exports/Domestic Consumptions

Million Bales



While the cotton fiber is our principle product, we also continue to seek ways to enhance the value of cottonseed and its products which account for 12% of the value of the crop at the farm gate. Cottonseed processing facilities provide important markets for our seed, add economic value and create employment. Interestingly, as ethanol production increases, one of the by-products – dried distillers’ grain – has depressed the value of cottonseed and meal in feed markets. This may seem to be a minor problem but it is an unintended consequence that has an adverse economic impact on cotton farmers and cottonseed processors and merchants.

We believe the current farm law has and continues to provide a stable and effective national farm policy for our country. The combination of direct and counter-cyclical payments provide an effective means of income support, especially when prices are low, without distorting planting decisions. The primary shortcoming of the 1996 law was the lack of a counter-cyclical payment that triggered when prices are low. As a consequence, farmers were forced to request emergency assistance from Congress year after year. This has been alleviated by the counter-cyclical program provision in current law. The direct payment provides financial stability required by our lenders and suppliers. I would caution that those who promote replacement of the counter-cyclical payment with higher direct payments risk taking the land out of producers’ hands so it is important to continue to maintain a balance. It is also important to recognize the differences in regional impacts that can occur due to program changes. In the Southeast, payment yields for direct payments are lower than other regions, so a rebalancing toward direct payments would be a competitive disadvantage for the Southeast.

We strongly support continuation of the marketing loan. Cotton and rice were the guinea pigs for this innovative policy in 1985 and it has served us well. The marketing loan responds to low prices, it does not cause low prices. It is also effective because it triggers – when necessary – regardless of the cause of low prices and it ensures that U.S. cotton farmers are not left as residual suppliers because they are unable to compete with the treasuries of foreign governments.

It is also critical that all production remain eligible for the marketing loan to allow farmers to make informed, orderly marketing decisions. It is important to allow all U.S. commodities to be competitive in international markets. Any arbitrary limits on loan eligibility simply signals our competitors that we are willing to be competitive on a portion but not all of our production. This is an invitation for others to increase production and the U.S. to become a residual supplier.

The cotton loan structure and world price calculation have served us well but may require some modification in response to the new emphasis on export markets and the termination of Step 2. Simplification of the loan rate schedule and modification of the calculation of a world price may need to be part of any new farm law. We also support elimination of the longstanding prohibition on USDA projecting cotton prices for the purposes of administering the program.

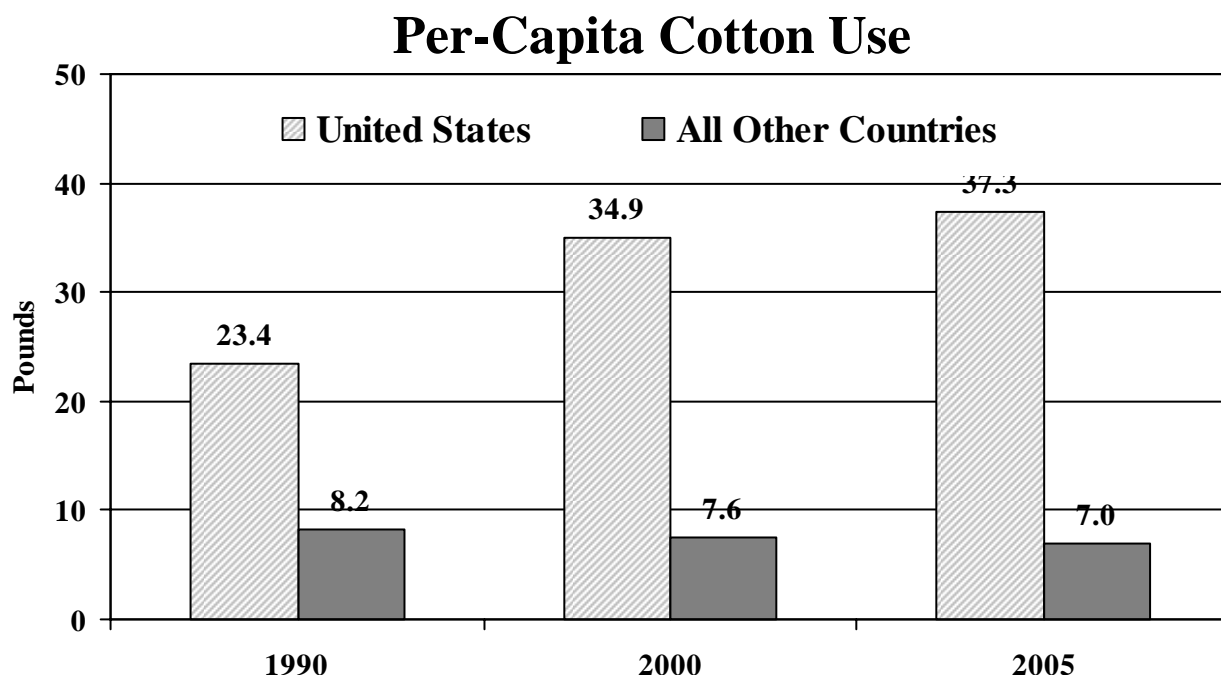
A sound farm policy is of little value to a significant portion of the cotton industry, including most producers, merchants, cooperatives and processors, if arbitrary, unworkable limitations are placed on benefits. Current law requires USDA to determine if individuals meet certain eligibility requirements and there are stringent limitations on each category of benefits. Unfortunately, these limits have been dictated by public perception, not the requirements of efficient, internationally competitive family operations. The cost of administering limitations

should be evaluated since there is continuous pressure on USDA to streamline and downsize. Frankly, we believe limitations should be eliminated but at the very least any limitations in future law should not be more restrictive or disruptive than those in current law.

We believe conservation programs will continue to be an important component of effective farm policy. These programs should be operated on a voluntary, cost-share basis and are a valuable compliment to commodity programs. However, they are not an effective substitute for the safety-net provided by commodity programs. The Conservation Reserve Program, Conservation Security Program and Environmental Quality Incentive Programs are proven, valuable ways to promote sound, sustainable practices through voluntary, cost-share, incentive based programs.

Continuation of an adequately funded export promotion program including the Market Access Program and Foreign Market Development Program are important in an export dependant agricultural economy. It is also valuable to maintain a WTO-compliant export credit guarantee program. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets – but the public-private partnerships facilitated by the MAP and FMD programs using a cost-share approach have proven highly effective and have the added advantage of being WTO compliant.

The U.S. cotton industry understands the value and benefits of effective promotion. In addition to being original and continuous participants in FMD and MAP, growers finance a very successful promotion program through a self-assessment (check-off) program. The average U.S. consumer purchases 35 pounds of cotton textile and apparel products each year in large part due to a successful promotion program. In the rest of the world, consumption is less than 6 pounds per person per year. Promotion works and it is important that the authority for farmers to operate self-help, self-financed promotion programs be continued.



Mr. Chairman, we understand you and your colleagues will face significant challenges in maintaining effective farm policy in the future. In addition to the need to balance the diverse interests of different regions of the country and commodities. We also know you have to compete for financial resources in times of a significant budget deficit. And, we know you will have to consider compliance with international agreements as you craft future farm policy.

Frankly, most cotton farmers and a majority of the industry would be satisfied with an extension of current law. We know, however, that existing policy will face hurdles, both domestically and internationally.

Internationally, we are growing concerned that the Doha Negotiations are turning against U.S. agriculture in general and against U.S. cotton in particular. Our trading partners appear to have “pocketed” the generous U.S. offer on domestic support without making an adequate response. Now, they want more U.S. concessions while refusing to provide adequate market access. Worse, China, the largest cotton market in the world, wants to be exempt from any further market access commitments. The only meaningful gains in market access for cotton can be achieved if China agrees to reform the administration of their quota system.

If other countries cannot match the U.S. level of ambition for market access, we should either withdraw or reduce our offer on domestic support. An agreement must provide demonstratable economic benefits to U.S. agriculture to earn our support.

We would be far better off constructing a new farm bill under current WTO rules than we would accepting an agreement with rigid, inflexible, poorly defined limits that contains no real gains in market access. Mr. Chairman, we would rather have a \$19.1 billion amber box ceiling and current rules, than a \$7.6 billion ceiling and worse rules.

We appreciate your steadfast support for cotton throughout the WTO negotiations, but we are concerned your message has not been fully appreciated. Cotton has already given more than any other commodity in these negotiations. An agreement that singles out U.S. cotton for additional inequitable treatment will not be accepted by U.S. cotton producers.

If the current trade negotiations are suspended, we would strongly support an extension to current law.

Finally, we are deeply disturbed by claims that 80% of all program benefits go to fewer than 20% of the producers and that only the so-called program crops receive direct benefits from farm law. These comments are misleading and serve to divide rather than inspire cooperation. First, it’s important to remember that program benefits do not just come as direct payments. Virtually every commodity receives some type of support, whether through direct income payments, price support programs or barriers to import. For example, for some commodities, the U.S. imposes higher tariffs on imports during times when domestic supplies are the most plentiful. In addition, some commodities receive support through government purchases of the product or by mandating use of the product. Favorable tax laws are also used to provide support for certain products but the benefits are not directly attributed to individual farmers. Furthermore, it is also recognized that our current farm programs provide very real benefits to the livestock sector.

Livestock benefits from our current farm programs through a safe and affordable supply of feedstuffs such as corn, soybean meal and cottonseed.

It is also misleading to compare payments going to the number of farmers. With the natural consolidation of agriculture, it is inevitable that the majority of program benefits will go to the farmers who account for the majority of production. However, it is also true that per-pound or per-bushel support is consistent across producers regardless of size. Also, payments to producers represent just a fraction of the costs and risks incurred to enable farmers to produce. This is especially true in the current environment of increasing fuel and energy costs. Today's payments are an important safety net and not a windfall of profit.

I am pleased to assure you and your colleagues that the cotton industry is prepared to continue to work with all interests to develop and support continuation of a balanced and effective policy for all of U.S. agriculture.

Thank you for the opportunity to testify today. I will be pleased to respond to your questions at the appropriate time.